

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

In re:

Chapter 11

RELS MANUFACTURING CORPORATION

BKY 04-42532-RJK

Debtor.

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U.S. TRUSTEE'S OBJECTIONS TO PROPOSED  
DISCLOSURE STATEMENT OF DEBTOR

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The United States Trustee, by his undersigned attorney, does hereby object to the adequacy of information in the Proposed Disclosure Statement and Plan, both dated September 30, 2004, filed by the Debtor in Possession in the above entitled case. In furtherance of his objections, the U.S. Trustee states as follows:

1. This matter is set for hearing at 10:30 a.m. on November 3, 2004, before the Honorable Robert J. Kressel, United States Bankruptcy Judge, Courtroom #8 West, United States Courthouse, 300 South Fourth Street, Minneapolis, MN 55415.

2. The proposed disclosure statement and plan do not contain adequate information because they are unclear in the proposed treatment of the Class 2 claims of Associated Commercial Finance. The proposed treatment is divided between the Line of Credit and the Term Note.

A. First, the treatment of the Line of Credit is unclear. Specifically, the plan and proposed disclosure statement propose to make no payments made on that Line whatsoever, including no payments of accruing interest. However, the future operating projections (Exhibit 5.2) show that the outstanding balance on the Line will remain constant. If no interest is to be paid,

then the extent to which the loan balance increases should be shown. Conversely, if interest payments are to be made, an estimate of that monthly payment should be disclosed and the payments should also be shown on the future operating projections.

B. In the Class 2 treatment of the Term Loan, the proposed disclosure statement and plan provide for principal payments of \$5,000 per month plus accrued interest. The amount of accrued interest should be shown in the proposed disclosure statement and on the future operating projections.

3. In the treatment of the Class 3A claims of General Unsecured Claims, the proposed Disclosure Statement and Plan provide for treatment of claims which are NOT trade claims. Class 3B provides for the treatment of the trade claims. In order to contain adequate information, the proposed disclosure statement should provide a more clear explanation of which creditors fall into that non trade claim class so that class members can recognize themselves. This is particularly important for two reasons. First, so that those non-trade claimants do not incorrectly assume they are entitled to the "Option 2" treatment given to trade claimants. Second, so that it is clear which creditors fall into which class so that the votes on plan acceptance/rejection can be properly tallied.

4. The plan and proposed disclosure statement in the treatment of the unclassified Priority Tax claim of the Minnesota Department of Revenue provide that the quarterly installment payments will be \$624.90. Based on the calculations of the undersigned, amortizing the \$14,422.49 balance paid over 24 quarters at 3.78 % interest per annum, (and adjusting the interest rate to account for quarterly payments) requires quarterly payments of \$674.48.

5. The plan and proposed disclosure statement require more detail in describing the “non-tax” priority claims in Class 1. Specifically, the nature of the claims should be described and the number of claim holders (as well as their identity, if appropriate) should be disclosed.

6. The proposed disclosure statement (page 7) is unclear in its explanation of the litigation with BL Systems. On that page, it states BL Systems obtained a judgment against the debtor for \$190,000.00, yet at ¶ 2.2(d) it states that the lawsuit was dismissed without prejudice, but that the debtor may still be able to recover up to \$400,000.00. The inconsistency should be clarified.

7. The plan and proposed disclosure statement, in the identification of impaired claims are inconsistent. The proposed disclosure statement, page 9, states that Class1 is impaired, but on page 14 states that it is unimpaired. This should be rectified.

8. Exhibit 5.1 to the proposed disclosure statement is financial statements which include notes from the debtor’s accountant. “Note C” to the financial statement (at page 7 of the exhibit) states that as of March 31, 2004, the debtor had a note payable to its sole shareholder of \$254,538.00. In order to contain adequate information, the proposed disclosure statement should state whether that claim is part of the total claims in Class 3A or 3B. That disclosure should be made in the disclosure statement where plan treatment is described and should not be made only in a footnote to the financial statements.

9. The Liquidation Analysis attached to the proposed disclosure statement as Exhibit 6.1 lists as an asset “Trade Dollars” with a book value of \$147,455.00. In order to contain adequate information, the proposed disclosure statement should explain what those “Trade Dollars” are, how they work, and why they’re given the liquidation value listed. Also, the Liquidation Analysis lists numerous “costs associated with liquidating the company”, including salaries of \$63,000, administrative expenses of \$90,000, and “other expenses” of \$15,000.00. These expenses seem inordinately high. The Liquidation Analysis

should either provide some sort of explanation of these claimed liquidation expenses or the figures should be amended to be more realistic.

10. The Liquidation Analysis shows that the debtor has cash on hand of \$8,907.00. The Cash Flow Budget (Exhibit 5.2) confirms approximately this amount. Since a review of the plan in its entirety shows that the debtor will need to pay out at least \$20,900.00 on the Effective Date (or Distribution Date), it is unclear where the debtor will get the money. Substantial consummation of the plan requires that these payments be made. The source of such funds must therefore be clearly disclosed.

WHEREFORE, the United States Trustee hereby objects to the adequacy of information in the debtor's proposed disclosure statement and plan and submits that the proposed disclosure statement should not be approved unless the foregoing deficiencies are resolved.

HABBO G. FOKKENA  
United States Trustee  
Region 12

Dated: October 26, 2004

By: e/Michael R. Fadlovich  
Michael R. Fadlovich  
Attorney/Advisor #158410  
1015 U.S. Courthouse  
300 South Fourth Street  
Minneapolis, MN 55415  
612/ 664-5500

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

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MEMORANDUM OF LAW IN SUPPORT OF  
OBJECTIONS TO PROPOSED DISCLOSURE STATEMENT

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The primary purpose of a disclosure statement is to give creditors information necessary to decide whether to accept the plan. In re Monnier Bros., 755 F.2d 1336, 1342 (8th Cir. 1985).

A disclosure statement must provide "adequate information" as defined in 11 U.S.C. 1125(a):

Precisely what constitutes adequate information in any particular instance will develop on a case by case basis. Courts will take a practical approach as to what is necessary under the circumstances of each case . . . . In reorganization cases, there is frequently great uncertainty. Therefore the need for flexibility is greatest.

H.R. Rep. No. 595, 95th Cong., 1st Sess. 409, reprinted in 1978 U.S. Code Cong. & Admin. News 5963, 6365. See also, 11 U.S.C. §1125(b) and In re Texas Extrusion Corp., 844 F.2d 1142, 1157 (5th Cir.), cert denied, 109 S.Ct. 311 (1988).

A nonexclusive list of the types of information that should be included in a disclosure statement can be found in In re Dakota Rail, Inc., 104 B.R. 138, 142-143 (Bkrtcy.D.Minn. 1989). See also, In re Haukos Farms, Inc., 68 B.R. 428 (Bkrtcy.D.Minn. 1986) and In re Metrocraft Pub. Services, Inc., 39 B.R. 567 (Bkrtcy.N.D.Ga.

HABBO G. FOKKENA  
United States Trustee  
Region 12

Dated: October 26, 2004

By: e/Michael R. Fadlovich  
Michael R. Fadlovich  
Attorney/Advisor #158410  
1015 U.S. Courthouse  
300 South Fourth Street  
Minneapolis, MN 55415  
612/ 664-5500

CERTIFICATE OF SERVICE

In Re:

RELS Manufacturing Corporation

Debtor(s).

Bankruptcy No. 04-42532

Chapter 11 Case

I, Terri Frazer, declare under penalty of perjury that on October 27, 2004, I served a copy of the foregoing US Trustee's Objections to Proposed Disclosure Statement of Debtor by U.S. mail, postage prepaid, to each person named below:

RELS MANUFACTURING CORPORATION  
6700 BLECK DRIVE  
ROCKFORD, MN 55373

US ATTORNEY  
600 US COURTHOUSE  
300 SOUTH FOURTH STREET  
MINNEAPOLIS MN 55415

ASSOCIATED COMMERCIAL FINANCE  
401 EAST KILBOURN AVE  
STE 350  
MILWAUKEE WI 53202

ASSOCIATED COMMERCIAL FINANCE INC  
C/O PAUL L RATELLE ESQ  
800 LASALLE AVE STE 1900  
MINNEAPOLIS MN 55402

IRS DISTRICT DIRECTOR  
STOP 5700  
316 NORTH ROBERT STREET  
ST. PAUL, MN 55101

SECURITIES & EXCHANGE COMMISSION  
175 WEST JACKSON BLVD, SUITE 900  
CHICAGO, IL 60604

MARGARET FERNANDEZ, ESQ  
12600 DEERFIELD PARKWAY SUITE 100  
ALPHARETTA, GA 30004-8535

T. CHRIS STEWART  
DUNKLEY AND BENNETT PA  
701 FOURTH AVENUE SOUTH, SUITE 700  
MINNEAPOLIS, MN 55415

MN DEPT OF REVENUE  
COLLECTION ENFORCEMENT  
551 BANKRUPTCY SECTION  
PO BOX 64447  
ST PAUL MN 55164

PIER FOUNDRY  
51 STATE STREET  
ST PAUL MN 55107

UNSECURED CREDITORS COMMITTEE IN THE  
CH 11 CASE OF SHARK INDUSTRIES INC  
MATTHEW R BURTON ESQ  
LEONARD O'BRIEN SPENCER GALE & SAYRE  
100 S 5TH ST STE 2500  
MINNEAPOLIS MN 55402

IRS OFFICE OF CHIEF COUNSEL  
650 GALTIER PLAZA  
380 JACKSON STREET  
ST. PAUL, MN 55101

BL SYSTEMS INC.  
C/O MALCOM P. TERRY  
150 S. 5<sup>TH</sup> STREET, SUITE 1800  
MINNEAPOLIS, MN 55402

Dated: 10-27-04

By: Terri L. Frazer

Office of the United States Trustee

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MINNESOTA

In re:

Chapter 11

RELS MANUFACTURING CORPORATION

BKY 04-42532-RJK

Debtor.

At Minneapolis, Minnesota, this \_\_\_\_ day of \_\_\_\_\_, 2004.

This matter came before the Court for hearing on the hearing on adequacy of the September 30, 2004, Proposed Disclosure Statement filed by the Debtor in the above entitled case. Michael R. Fadlovich appeared on behalf of the United States Trustee. Other appearances were noted in the record.

The Court made its findings of fact and conclusions of law on the record pursuant to Rule 52 of the Federal Rules of Civil Procedure and Federal Rule of Bankruptcy Procedure 7052.

IT IS HEREBY ORDERED:

That approval of the Proposed Disclosure Statement is denied.

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ROBERT J. KRESSEL  
United States Bankruptcy Judge



